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THE FEDERAL EMERGENCY MANAGEMENT AGENCY

# INTRODUCTION TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 1999

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The financial statements included in this report have been prepared in accordance with the requirements of the Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended by OMB Memorandum No. 99-03, *Technical Amendments to OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements*, which superseded OMB Bulletin No. 94-01, *Form and Content of Agency Financial Statements*, for FY 1998. The responsibility for the integrity of the financial information included in these statements rests with management of the Federal Emergency Management Agency (FEMA).

The following accounting pronouncements were issued by the Federal Accounting Standards Advisory Board (FASAB) with effective dates in FY 1999:

- ▼ SFFAS No. 11: *Amendments to Accounting for PP&E—Definitions*;
- ▼ SFFAS No. 13: *Deferral of Paragraph 65.2—Material Revenue-Related Transactions*;
- ▼ SRAS No. 14: *Amendments to Deferred Maintenance Reporting*; and
- ▼ SFFAS No. 15: *Management's Discussion & Analysis*.

OMB Bulletin No. 97-01, as amended by OMB Memorandum No. 99-03, incorporates the concepts and standards contained in the Statements of Federal Financial Accounting Concepts (SFFAC), the Statements of Federal Financial Accounting Standards (SFFAS), and the Statements of Recommended Accounting Standards (SRAS) issued by the FASAB.

The audit of these financial statements was performed by Deloitte & Touche LLP under the direction of the Office of Inspector General. The auditors' report accompanies these financial statements.

## **PRINCIPAL STATEMENTS INCLUDED IN THIS REPORT**

The principal financial statements of FEMA Consolidated, its combined Directorates and Administrations, and the Disaster Relief Fund (DRF) for FY 1999 consist of the following (collectively referred to as the financial statements):

- ▼ Consolidated Balance Sheet
- ▼ Consolidated Statement of Net Cost
- ▼ Consolidated Statement of Changes in Net Position
- ▼ Consolidated Statement of Budgetary Resources
- ▼ Consolidated Statement of Financing

FEMA's consolidated financial statements include all activities within FEMA:

1. Disaster Relief Fund (DRF)
2. Response and Recovery Directorate (R&R)
3. Mitigation Directorate (MIT)
4. Preparedness, Training and Exercises Directorate (PT&E)
5. Federal Insurance Administration (FIA)
6. U.S. Fire Administration (USFA)
7. Support Organizations (SO)

These principal financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of FEMA Consolidated, its combined Directorates and Administrations, and the DRF to meet the requirements of the Chief Financial Officers Act of 1990 (CFO Act) and the Government Management Reform Act of 1994 (GMRA).

#### **LIMITATIONS OF THE FINANCIAL STATEMENTS**

- ▼ The financial statements have been prepared to report the financial activity of FEMA, pursuant to the requirements of 31 U.S.C. 3515(b).
- ▼ While the statements have been prepared from the books and records of FEMA in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.
- ▼ The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Combining statements of the Directorates and Administrations are presented outside of the principal statements, and are not a required part of the principal financial statements presented in conformity with OMB Bulletin No. 97-01, as amended by OMB Memorandum No. 99-03, and FEMA accounting policies. This information is presented for purposes of additional analysis of the consolidated financial statements

# THE FEDERAL EMERGENCY MANAGEMENT AGENCY

## CONSOLIDATED BALANCE SHEET

AS OF SEPTEMBER 30, 1999

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	DRF	CONSOLIDATED
<b>ASSETS</b>			
Intragovernmental			
Fund Balance with Treasury (Note 2)	\$ 820,690	\$ 7,248,870	\$ 8,069,560
Investments, net (Note 4)	1,533	-	1,533
Accounts receivable, net (Note 5)	4,552	80	4,632
Advances and prepayments (Note 7)	20	-	20
	<u>826,795</u>	<u>7,248,950</u>	<u>8,075,745</u>
Intragovernmental			
Accounts receivable, net (Note 5)	13,677	53,355	67,032
Advances and prepayments (Note 7)	273,770	48,359	322,129
Credit program receivables, net (Note 6)	19,210	-	19,210
Cash and other monetary assets (Note 3)	12,570	-	12,570
Inventory and other related property, net (Note 8)	3,920	-	3,920
General property, plant and equipment, net (Note 9)	8,178	21,369	29,547
	<u>826,795</u>	<u>7,248,950</u>	<u>8,075,745</u>
<b>Total Assets</b>	<b><u>\$ 1,158,120</u></b>	<b><u>\$ 7,372,033</u></b>	<b><u>\$ 8,530,153</u></b>
<b>LIABILITIES</b>			
Intragovernmental			
Accounts payable	\$ 11,616	\$ 163,041	\$ 174,657
Debt (Note 10)	617,667	-	617,667
Other intragovernmental liabilities (Note 15)	135	3,648	3,783
	<u>629,418</u>	<u>166,689</u>	<u>796,107</u>
Total Intragovernmental			
Accounts Payable	48,815	215,181	263,996
Claims and claims settlement expenses (Note 11)	514,531	-	514,531
Deferred revenue (Note 12)	905,322	-	905,322
Federal employee and veterans' benefits payable (Note 14)	6,313	5,463	11,776
Other governmental liabilities (Note 13, 15)	101,374	17,181	118,555
	<u>2,205,773</u>	<u>404,514</u>	<u>2,610,287</u>
<b>Total Liabilities</b>	<b><u>2,205,773</u></b>	<b><u>404,514</u></b>	<b><u>2,610,287</u></b>
<b>NET POSITION</b>			
Unexpended Appropriations (Note 16)	528,002	6,975,425	7,503,427
Cumulative Results of Operations	(1,590,027)	(8,811)	(1,598,838)
Current Year	14,372	905	15,277
	<u>(1,047,653)</u>	<u>6,967,519</u>	<u>5,919,866</u>
<b>Total Net Position</b>	<b><u>(1,047,653)</u></b>	<b><u>6,967,519</u></b>	<b><u>5,919,866</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 1,158,120</u></b>	<b><u>\$ 7,372,033</u></b>	<b><u>\$ 8,530,153</u></b>

The accompanying Notes are an integral part of these statements.

THE FEDERAL EMERGENCY MANAGEMENT AGENCY

CONSOLIDATED STATEMENT  
OF NET COST

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	DRF	CONSOLIDATED
<b>COSTS:</b>			
Production	\$ 1,995,608	\$ 3,903,770	\$ 5,899,378
Non-production	2,083	2,457	4,540
Total Program Costs	1,997,691	3,906,227	5,903,918
Less Earned Revenues	(1,479,131)	(861)	(1,479,992)
Net Program Costs	518,560	3,905,366	4,423,926
<b>NET PROGRAM COSTS BEFORE ALLOCATIONS</b>	<b>518,560</b>	<b>3,905,366</b>	<b>4,423,926</b>
Net Cost Allocations of Support Organizations and Prior Years' Appropriations (Note 17)	(136,843)	136,843	-
<b>NET COST OF OPERATIONS AFTER ALLOCATIONS</b>	<b>\$ 381,717</b>	<b>\$ 4,042,209</b>	<b>\$ 4,423,926</b>

The accompanying Notes are an integral part of these statements.

THE FEDERAL EMERGENCY MANAGEMENT AGENCY

CONSOLIDATED STATEMENT  
OF CHANGES IN NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	DRF	CONSOLIDATED
<b>Net Cost of Operations</b>	\$ (381,717)	\$ (4,042,209)	\$ (4,423,926)
Financing Sources (Other than exchange revenues):			
Appropriations Used	525,692	3,911,233	4,436,925
Imputed Financing	10,562	1,632	12,194
Transfers-in	20,000	-	20,000
Transfers-out	(20,000)	-	(20,000)
Net Cost Allocations of Support Organizations and Prior Years' Appropriations (Note 17)	<u>(136,843)</u>	<u>136,843</u>	<u>-</u>
Net Results of Operations	17,694	7,499	25,193
Prior Period Adjustments	<u>(3,322)</u>	<u>(6,594)</u>	<u>(9,916)</u>
Net Change in Cumulative Results of Operations	14,372	905	15,277
Increase (Decrease) in Unexpended Appropriations	<u>256,242</u>	<u>(1,798,227)</u>	<u>(1,541,985)</u>
<b>Change in Net Position</b>	<b>270,614</b>	<b>(1,797,322)</b>	<b>(1,526,708)</b>
Net Position - Beginning of the Period	(1,303,868)	8,764,841	7,460,973
Cancelled Authority from BFY 1993 (Note 1.Y.)	<u>(14,399)</u>	<u>-</u>	<u>(14,399)</u>
<b>Net Position-End of Period</b>	<b>\$ (1,047,653)</b>	<b>\$ 6,967,519</b>	<b>\$ 5,919,866</b>

The accompanying Notes are an integral part of these statements.

THE FEDERAL EMERGENCY MANAGEMENT AGENCY

# CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	DRF	CONSOLIDATED
<b>Budgetary Resources:</b>			
Budget Authority	\$ 1,186,836	\$ 2,113,745	\$ 3,300,581
Unobligated Balance - Beginning of Period	651,916	2,400,404	3,052,320
Net Transfers Prior-Year Balance, Actual (+ or -)	7,843	(739)	7,104
Spending Authority from Offsetting Collections	1,538,644	13,662	1,552,306
Adjustments	(393,976)	828,588	434,612
<b>Total Budgetary Resources</b>	<b>\$ 2,991,263</b>	<b>\$ 5,355,660</b>	<b>\$ 8,346,923</b>
<b>Status of Budgetary Resources:</b>			
Obligations Incurred	\$ 2,107,114	\$ 4,401,284	\$ 6,508,398
Unobligated Balances - Available	842,924	940,830	1,783,754
Unobligated Balances - Not Available	41,225	13,546	54,771
<b>Total, Status of Budgetary Resources</b>	<b>\$ 2,991,263</b>	<b>\$ 5,355,660</b>	<b>\$ 8,346,923</b>
<b>Outlays:</b>			
Obligations Incurred	\$ 2,107,114	\$ 4,401,284	\$ 6,508,398
Less: Spending Authority From Offsetting Collections and Adjustments	1,544,454	838,873	2,383,327
Subtotal	562,660	3,562,411	4,125,071
Obligated Balance, Net - Beginning of the Period	807,603	6,427,751	7,235,354
Less: Obligated Balance, Net - End of the Period	990,197	6,277,937	7,268,134
<b>Total Outlays</b>	<b>\$ 380,066</b>	<b>\$ 3,712,225</b>	<b>\$ 4,092,291</b>

The accompanying Notes are an integral part of these statements.

THE FEDERAL EMERGENCY MANAGEMENT AGENCY

# CONSOLIDATED STATEMENT OF FINANCING

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(DOLLARS IN THOUSANDS)

	Directorates and Administrations	DRF	CONSOLIDATED
<b>Obligations and Non-budgetary Resources</b>			
Obligations incurred	\$ 2,107,114	\$ 4,401,284	\$ 6,508,398
Less: Spending authority for offsetting collections and adjustments	1,544,454	838,873	2,383,327
Financing imputed for cost subsidies	10,562	1,632	12,194
Exchange revenue not in the budget	(47,006)	3,285	(43,721)
<b>Total obligations, as adjusted, and non-budgetary resources</b>	<b>526,216</b>	<b>3,567,328</b>	<b>4,093,544</b>
<b>Resources That Do Not Fund Net Cost of Operations</b>			
Change in amount of goods, services, and benefits ordered but not yet received or provided	(66,543)	341,275	274,732
Costs capitalized on the balance sheet	110	(8,175)	(8,065)
Financing sources that fund costs of prior periods	(274)	-	(274)
Other	(3,321)	(6,594)	(9,915)
<b>Total resources that do not fund net cost of operations</b>	<b>(70,028)</b>	<b>326,506</b>	<b>256,478</b>
<b>Costs That Do Not Require Resources</b>			
Depreciation and amortization	2,083	2,457	4,540
Other	7,114	-	7,114
<b>Total costs that do not require resources</b>	<b>9,197</b>	<b>2,457</b>	<b>11,654</b>
<b>Financing Sources Yet to Be Provided</b>	<b>53,175</b>	<b>9,075</b>	<b>62,250</b>
<b>Net Cost of Operations</b>	<b>\$ 518,560</b>	<b>\$ 3,905,366</b>	<b>\$ 4,423,926</b>

The accompanying Notes are an integral part of these statements.





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THE FEDERAL EMERGENCY MANAGEMENT AGENCY

NOTES TO THE  
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(DOLLARS IN THOUSANDS)

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The Federal Emergency Management Agency's (FEMA) agency-wide financial statements report all of the activities of the Agency, including the Disaster Relief Fund (DRF), and the Agency's combined Directorates and Administrations. The Directorates and Administrations are:

- ▼ Response & Recovery Directorate (R&R)
- ▼ Mitigation Directorate (MIT)
- ▼ Preparedness, Training, & Exercises Directorate (PT&E)
- ▼ Federal Insurance Administration (FIA)
- ▼ U.S. Fire Administration (USFA)
- ▼ Support Organizations (SO)

The financial statements were prepared to meet the requirements of the Chief Financial Officers Act of 1990 (CFO Act) and the Government Management Reform Act of 1994 (GMRA). While the statements have been prepared from the books and records of FEMA in accordance with the form and content prescribed by the Office of Management and Budget (OMB), the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the understanding that they are for a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

The Agency's FY 1999 financial statements are presented in conformity with OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended by OMB Memorandums No. 99-03 and No. M-00-05, *Technical Amendments to OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements*. As encouraged in the technical amendment, FEMA has elected early implementation of changes to the balance sheet presentation that will be required for FY 2001. This represents a change in presentation from the prior year, and in conformance with the provisions of the *Technical Amendments to OMB Bulletin No. 97-01*, comparative data will not be presented until FY 2000.

Differences include format and content changes to the following statement:

▼ Consolidated Balance Sheet

Activity resulting from FY 1994 through FY 1996 appropriations for Salaries and Expenses, Emergency Management and Planning Assistance, Emergency Planning and Assistance–Earthquake Program, Salaries and Expenses–Earthquake Program, and the Inspector General is presented in a separate column on the supplemental combining statements of the Directorates and Administrations, and is allocated to the Directorates, Administrations, and the DRF.

## **B. Reporting Entity**

The accompanying consolidated financial statements of FEMA include activities of the following organizational components of the Agency:

### **1. Disaster Relief Fund**

The Disaster Relief Fund (DRF) was established to provide assistance to supplement state and local governments' disaster response, recovery, preparedness, and mitigation efforts. The Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law (P.L.) 93-288, as amended) authorized the President to provide such assistance, and Executive Order 12148 delegated the responsibility for administering the federal government's efforts to the Director of FEMA. The Stafford Act authorizes five types of declarations or actions: (1) Major disasters for which the President declares a major disaster upon the request of the Governor of the affected State; (2) Emergency declaration which authorizes only emergency type assistance; (3) Fire Suppression to provide assistance to supplement the resources of communities; (4) Defense Emergency where the Department of Defense performs for a short period to preserve life and property; and (5) Incident Deployment when a disaster situation threatens human health and safety, and the disaster is imminent but not yet declared. It is the policy of FEMA to provide an orderly and continuing means of assistance by the federal government to state and local governments in carrying out their responsibilities to alleviate the suffering and damage resulting from major disasters and emergencies. The DRF is funded by no-year appropriations.

### **2. Response and Recovery Directorate**

The Response and Recovery (R&R) Directorate is responsible for the planning, coordination and execution of the federal government's response in providing assistance to state and local governments, in the event of major disasters and emergencies. In addition, R&R is responsible for the Individual and Public Assistance Grant Programs, which are authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288, as amended). The expenses of carrying out this disaster assistance under the Act are funded under a separate appropriation, the Disaster Relief Fund (DRF), previously described in this note.

R&R has responsibility for the Disaster Assistance Direct Loan Program (DADLP) which makes four types of loans: Community Disaster Loans; Individual and Family Grant State Share Loans; Public Assistance State Share Loans; and Hazard Mitigation State Share Loans. The DADLP for the non-federal share of program costs was created under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, P.L. 93-288, as amended by P.L. 100-707. Community Disaster Loans were available under P.L. 93-288 prior to the Stafford Act.

The Bequests and Gifts, Cora Brown Fund, a trust fund, administered by the Human Services Division of the R&R Directorate provides for disaster-related needs that have not been and will not be met by governmental agencies or any other organizations. The fund contains the remainder of the initial endowment plus interest earned as well as other gifts.

### 3. Mitigation Directorate

The Mitigation (MIT) Directorate provides for the development, coordination, and implementation of policies, plans, and programs to eliminate or reduce the long-term risk to human life and property from natural hazards, such as floods, earthquakes, hurricanes, and dam failures. The Directorate's programs identify and address the nature and extent of risk for all hazards. This information is developed into mitigation strategies and delivered through the FEMA regional offices or other appropriate mechanisms to the end user, whether it is state and local governments, engineers, architects, planners, code officials, or community leaders. Emphasis is given to the integration and efficient implementation of existing mitigation authorities; identification of gaps between these authorities and proposed remedies; and developing, implementing, and supporting innovations that encourage and foster a multi-hazard approach to mitigation activities at the federal, state, and local level in a partnership between government and private sector entities.

### 4. Preparedness, Training & Exercises Directorate

The Preparedness, Training & Exercises (PT&E) Directorate provides resources for an array of all-hazard emergency management programs that assure that an integrated partnership of people, plans, systems, and facilities stand ready to provide assistance and relief in any emergency condition or situation. The Cooperative Agreement grants funded by this activity under the auspices of the Performance Partnership Agreement are being provided to states to address the specific risks they have identified. The technical assistance, training curriculum, and exercises funded by this activity are designed to foster and improve the knowledge and experience that a prepared, competent emergency management community must possess in order to save lives and mitigate the economic impact of disasters.

### 5. Federal Insurance Administration

The Federal Insurance Administration (FIA) is the entity of FEMA that administers the National Flood Insurance Program (NFIP), the Unified National Program for Floodplain Management, and the National Insurance Development Fund, the vehicle used for funding the Federal Crime Insurance Program (FCIP). Computer Sciences Corporation (CSC), acts as the Bureau and Statistical Agent and produces financial statements with information for the Direct and Write Your Own (WYO) Insurance Underwriting Operations. The financial presentation for FIA in the supplemental combining statements includes information from these financial statements.

The FCIP authorization expired September 30, 1995, and the program is in the closeout process. P.L. 106-74 for the fiscal year (FY) ending September 30, 2000 forgives the FCIP's debt to the Treasury. FIA uses a servicing agent, National Con-Serv, Inc. (NCSI), to carry out the processing for the program.

### 6. U.S. Fire Administration

The United States Fire Administration (USFA) is the federal fire focus within FEMA and has ultimate responsibility for all fire and emergency medical services programs and training activities. Fire prevention and hazard mitigation activities are developed and delivered through the USFA, utilizing programs designed to build capacity at the state and local level; to enhance the nation's fire prevention, arson control, and Emergency Management Support (EMS) activities and, thereby, significantly reduce the nation's loss of life from fire; to achieve a reduction in property loss and non-fatal injuries to firefighters and citizens due to fires; and to improve emergency preparedness capability. Education and training programs are provided through the National Fire Academy in Emmitsburg, Maryland.

## 7. Support Organizations

The Support Organizations provide services to the Directorates, Administrations, and the DRF so that FEMA can effectively and efficiently meet its agency-wide objectives. FEMA's Support Organizations are comprised of the Inspector General's Office, Operations Support, Executive Direction, Information Technology Services, and Policy and Regional Operations. These organizations provide services such as oversight of Agency programs and operations, coordination among agency programs, management of information technology resources, logistics management, financial management, and agency-wide planning, policy development, and strategic initiatives.

### C. Budgets and Budgetary Accounting

Budgetary accounting measures the appropriation and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over the use of federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of purchase. Assets and liabilities, which do not consume current budgetary resources, are not reported, and only those liabilities for which a valid obligation has been established are considered to consume budgetary resources.

Within FEMA, budget authority, the authority to enter into financial obligations that will result in an immediate or future outlay, is derived from: (1) cost reimbursement for the provision of goods or services, (2) receipts that are held in trust for use in carrying out specific purposes and programs in accordance with agreements or statutes, and (3) congressional appropriations or other authorizations to spend general revenues.

### D. Basis of Accounting

Under the authority of the CFO Act, the Federal Accounting Standards Advisory Board (FASAB) was established to recommend federal accounting standards to the Secretary of the Treasury, the Director of the OMB, and the Comptroller General. Fourteen Statements of Federal Financial Accounting Standards (SFFAS) and three Statements of Recommended Accounting Statements (SRAS) have been issued by the Director of OMB and the Comptroller General, some with deferred effective dates.

The accompanying financial statements have been prepared in accordance with SFFAS and related concepts. On October 19, 1999, the American Institute of Certified Public Accountants (AICPA) designated the FASAB as the accounting standards-setting body for federal government entities. As a result, accounting principles promulgated by FASAB are now considered Generally Accepted Accounting Principles (GAAP) for federal government entities. In the event the SFFASs do not address all transactions, the following hierarchy provides sources of accounting principles for the Federal Government: (1) Individual standards agreed to by the Director of OMB, the Comptroller General, and the Secretary of Treasury, and published by OMB and the General Accounting Office (GAO); (2) Interpretations related to the SFFASs issued by OMB in accordance with the procedures outlined in OMB Circular No. A-134, *Financial Accounting Principles and Standards*; (3) Requirements contained in OMB's *Form and Content* Bulletin in effect for the period covered by the financial statements; and (4) Accounting principles published by other authoritative standard-setting bodies and other authoritative sources.

### E. Revenues and Financing Sources

FEMA receives the majority of the funding needed to support the programs through congressional appropriations. FEMA receives annual, multi-year, and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional

amounts are obtained through sales of goods and services to the public. The revenue from the sales of goods and services to the public consist primarily of: (1) insurance premiums for FIA's flood insurance program which are recognized as income ratably over policy coverage periods, and (2) user fees for PT&E's Radiological Emergency Preparedness Program that provides services to commercial nuclear power plants. FEMA receives interest revenue from its loan program as well as from Treasury on invested funds. FEMA receives gifts from donors in a trust fund. In addition, FEMA has programs for which the expenses are reimbursed by other federal agencies.

Imputed financing sources consist of imputed revenue for post-retirement benefits for FEMA employees as described in Note 1.V.

Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred.

#### **F. Fund Balance with Treasury and Cash and Other Monetary Assets**

FEMA does not, except for minimal balances maintained by FIA's WYO companies, maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The Fund Balances with Treasury and Cash and Other Monetary Assets are primarily appropriated, revolving, or trust funds that are available to pay current liabilities and finance authorized purchase commitments.

#### **G. Investments, Net**

Investments in U.S. Government securities are reported at cost or amortized cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. FEMA's intent is to hold investments to maturity, unless they are needed to sustain operations. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

#### **H. Accounts Receivable, Net**

Accounts Receivable, Net—Intragovernmental consists of amounts due from other federal agencies.

Accounts Receivable, Net consists primarily of premiums and restitution due from WYO companies participating in FIA's flood insurance program, amounts due from insurance customers and agents' commissions from cancelled policies, and amounts due from overpayments to grant recipients.

#### **I. Credit Program Receivables, Net**

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal and interest receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience and an analysis of outstanding balances.

For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

#### **J. Advances and Prepayments**

Advances for DRF consist of disaster assistance grants to states and to other federal agencies tasked with mission assignments. Advances for other directorates consist primarily of grants



to states of which the largest category is State and Local Assistance, a consolidation of grant programs, that supports state and local emergency management staffs and operations. Upon receipt of goods and services, the advances are expensed.

FIA payments made in advance of the receipt of goods and services are recorded as prepaid assets at the time of prepayment and recognized as expenses when the related goods and services are received. Policy acquisition costs, consisting of commissions incurred at policy issuance, are deferred and amortized over the period in which the related premiums are earned, generally one to three years.

#### **K. Inventory and Related Property, Net**

Inventory and Related Property, Net are comprised of floodplain maps and studies. Inventory on hand at year-end is stated at the lower of cost or market using the average cost method. The recorded values are adjusted for the results of physical inventories taken periodically in accordance with a cyclical counting plan. Expenses are recorded when the inventories are sold or distributed.

Operating materials and supplies that are pre-positioned in Territory Logistics Centers for disaster use are expensed as purchased.

#### **L. General Property, Plant, and Equipment, Net**

General Property, Plant, and Equipment is capitalized at cost if the initial acquisition cost is \$15,000 or more. Property, Plant, and Equipment is depreciated using a 1/2-year convention and the straight-line method over the asset's useful life. Property, Plant, and Equipment with an acquisition cost of less than \$15,000 is expensed when purchased.

FEMA has adopted the following useful lives for classes of depreciable property:

- ▼ 5-Year Property: Cars, light and heavy general purpose trucks; qualified technological equipment, computer-based telephone switching equipment; radios and other voice/data communications equipment; computers and peripheral equipment; qualified internally and contractor developed software; office machinery and equipment; office furniture and fixtures; capital leasehold improvements; and any additional personal property that is not otherwise classified.
- ▼ 20-Year Property: Buildings and structures and their elevators and escalators; additions, betterments and replacements to buildings and structures; and land improvements.

#### **M. Liabilities**

Liabilities represent the amount of monies or other resources that are likely to be paid by FEMA as the result of a transaction or event that has already occurred. However, no liability can be paid by FEMA absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as unfunded liabilities since there is no certainty that the appropriations will be enacted. The Government, acting in its sovereign capacity, can abrogate liabilities of FEMA arising from other than contracts.

#### **N. Accounts Payable**

Accounts Payable—Intragovernmental consists of amounts owed to other federal agencies.

Accounts Payable consists of trade accounts payable, commissions payable, and bank overdraft liability.

## **O. Debt**

Debt results from loans from the Treasury to fund FIA and DADLP operations described in Note 10. These programs are required to make periodic principal payments to the Treasury based on the terms of the notes.

FEMA's FIA and DADLP have interest payable to Treasury. They are required to make periodic interest payments to the Treasury Department based on the loans outstanding less the unexpended cash in the account at Treasury.

Additional funding for FIA's NFIP may be obtained through a Treasury Department borrowing authority of \$500 million (up to \$1 billion with the approval of the President). Approval from the President was granted on March 19, 1996, to borrow in excess of \$500 million. P.L. 104-208, making omnibus consolidated appropriations for the FY ended September 30, 1998 and for other purposes, increased borrowing authority from \$1 billion to \$1.5 billion. P.L. 105-65, making omnibus consolidated appropriations for the FY ended September 30, 1999 and for other purposes, maintained borrowing authority at \$1.5 billion.

As of September 30, 1999, FCIP had borrowed \$3.4 million from the Treasury Department. FCIP's debt to the Treasury was forgiven subsequent to the fiscal year-end as part of the FY 2000 appropriation. (See Note 20.)

DADLP's debt as of September 30, 1999 was \$58.8 million. The borrowed funds were used to make loans to states and local governments in need of assistance in time of disaster.

## **P. Claims and Claims Settlement Expenses**

Provision for NFIP losses adjustment expenses, and estimates for incurred but not reported losses are based on reports of individual cases. Adjustments to estimated provisions are reflected in the financial statements as they occur. Loss adjustment expense includes direct costs of settlement and, for the WYO portion of Insurance Underwriting Operations, a provision for unallocated loss adjustment expenses.

Loss reserves for the year ended September 30, 1999 were derived using loss development data available through November 1999.

## **Q. Deferred Revenue**

NFIP premium revenues are recognized ratably over the life of the policies. Unearned premiums are reserved to provide for the unexpired period of insurance coverage.

## **R. Net Cost of Operations**

Net Cost of Operations includes all direct expenses for the Directorates, Administrations, and DRE, as well as the indirect and overhead expenses allocated from FEMA's Support services and Prior Years' Appropriations FY 1994-FY 1996.

## **S. Contingencies**

NFIP premium rates are generally established for actuarially rated policies with the intent of generating sufficient premiums to cover losses and loss adjustment expenses of a historical average loss year and to provide a surplus to compensate the Insurance Underwriting Operations for the loss potential of an unusually severe loss year due to catastrophic flooding.

Notwithstanding the foregoing, subsidized rates are charged on a countrywide basis for certain classifications of insureds. These subsidized rates produce a premium somewhat less than the loss and loss adjustment expenses expected to be incurred in a historical average

loss year, and do not include a provision for losses that may result from catastrophic flooding. Subsidized rates are used to provide affordable insurance on construction or substantial improvements started on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (i.e., an official map of a community on which NFIP has delineated both the special hazard areas and the non-subsidized premium zones applicable to the community).

The loss potential of catastrophic flooding cannot be meaningfully quantified as it relates to insurance policies in effect as of September 30, 1999. Accordingly, the financial statements do not include any provision for this contingent liability.

#### **T. Annual, Sick, and Other Leave**

A liability for annual leave is accrued as leave is earned and paid as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior-year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Sick leave and other types of non-vested leave are not accrued but expensed as taken.

#### **U. Workers' Compensation Liability**

Workers' Compensation is comprised of two components: (1) the accrued liability which represents money owed for claims paid through the current fiscal year, and (2) the actuarial liability for approved compensation cases beyond the current fiscal year.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for FEMA employees under FECA are administered by the Department of Labor and are ultimately paid by FEMA.

Future workers' compensation estimates were generated from an application of actuarial procedures developed by the Department of Labor to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined utilizing historical benefit payment patterns related to a specific period to estimate the ultimate payments related to that period.

#### **V. Pensions, Other Retirement Benefits, and Other Post-Employment Benefits**

Each employing federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees, effective with fiscal years beginning after September 30, 1996, as required by SFFAS No. 5. Factors used in the calculation of these pension and post-retirement health and life insurance benefits expenses were provided by the Office of Personnel Management (OPM) Financial Management Letter F-99-08, *1999 Cost Factors for Pension and other Retirement Benefits Expenses*, to each agency to meet this requirement.

FEMA's employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which FEMA makes contributions according to plan requirements. CSRS and FERS are multi-employer plans. FEMA does not maintain or report information about the assets of the plans, nor does it report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM, but



the pension expense of the Agency's employees is reported in accordance with SFFAS No. 5. A corresponding amount of imputed revenue is recorded to offset the expense.

#### **W. Estimation Process**

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

#### **X. Litigation**

FEMA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of FEMA management and legal counsel, the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

In the course of settling insurance claims, FIA is a defendant in litigation filed by claimants disputing the amount of insurance coverage or the amount of loss. The estimated liability for any resulting settlements is considered when establishing reserves for losses and loss adjustment expense. FIA is also seeking subrogation remedies against communities and others for reimbursement of certain claims. The proceeds of such actions are recognized as reductions of losses incurred.

#### **Y. Expired Accounts and Cancelled Authority**

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account into which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is cancelled. These amounts are reported on the Statement of Net Position to adjust the beginning Net Position balances.

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#### **NOTE 2. FUND BALANCES WITH TREASURY (IN THOUSANDS)**

##### **Directorates and Administrations**

Trust Funds	\$ 111
Revolving Funds	172,248
Appropriated Funds	602,147
Other Fund Types	46,184
Subtotal	<u>820,690</u>

##### **Disaster Relief Fund**

Appropriated Funds	<u>7,248,870</u>
Subtotal	<u>7,248,870</u>

<b>Total</b>	<u><u>\$ 8,069,560</u></u>
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### NOTE 3. CASH AND OTHER MONETARY ASSETS (IN THOUSANDS)

<b>Directorates and Administrations</b>	
Cash	\$ 8
Other Cash - Agency	2
Other Cash - Contractor	12,560
Subtotal	12,570
<b>Disaster Relief Fund</b>	
	-
<b>Total</b>	<u>\$ 12,570</u>

In FIA, minimal cash balances are maintained at commercial banks by the Write Your Own companies and the servicing agent to fund claim payments and other cash needs.

### NOTE 4. INVESTMENTS, NET (IN THOUSANDS)

#### Intragovernmental Securities:

	Cost	Amortization Method	Unamortized (Premium) Discount	Investments, Net	Other Adjustments	Required Market Value Disclosure
<b>Directorates and Administrations</b>						
Marketable	\$ 1,535	Straight Line	\$ (2)	\$ 1,533	\$ -	\$ 1,533
Non-Marketable:						
Par Value			-	-	-	-
Non-Marketable:						
Market-Based	-		-	-	-	-
Subtotal	1,535		(2)	1,533	-	1,533
Accrued Interest	-		-	-	-	-
Subtotal	1,535		(2)	1,533	-	1,533
<b>Disaster Relief Fund</b>						
	-		-	-	-	-
<b>Total</b>	<u>\$ 1,535</u>		<u>\$ (2)</u>	<u>\$ 1,533</u>	<u>\$ -</u>	<u>\$ 1,533</u>

### NOTE 5. ACCOUNTS RECEIVABLE, NET (IN THOUSANDS)

	Intra-governmental	Other	Total
<b>Directorates and Administrations</b>			
Accounts Receivable - Intragovernmental	\$ 4,552	\$ -	\$ 4,552
Accounts Receivable		14,107	14,107
Allowance for Loss		(430)	(430)
Subtotal	4,552	13,677	18,229
<b>Disaster Relief Fund</b>			
Accounts Receivable - Intragovernmental	80	-	80
Accounts Receivable		87,541	87,541
Allowance for Loss		(34,186)	(34,186)
Subtotal	80	53,355	53,435
<b>Total</b>	<u>\$ 4,632</u>	<u>\$ 67,032</u>	<u>\$ 71,664</u>

## NOTE 6. DISASTER ASSISTANCE DIRECT LOAN PROGRAM (IN THOUSANDS)

### A. FEMA operates the following direct loan programs for non-federal borrowers:

- (1) Community Disaster Loans
- (2) Individual & Family Grant Loans
- (3) Public Assistance Loans
- (4) Miscellaneous (State of NY) - Prior to FY 1992
- (5) Hazard Mitigation Loans - After FY 1991

An analysis of loans receivable and the nature and amounts of the subsidy and administrative costs associated with the direct loans is provided in the following sections.

### B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):

Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Direct Loans
(1) Community Disaster Loans	\$ 29,273	\$ 12,344	\$ -	\$ 31,036	\$ 10,581
(2) Individual & Family Grant Loans	-	-	-	-	-
(3) Public Assistance Loans	-	-	-	-	-
(4) Miscellaneous (State of NY)	7,482	19,376	-	26,858	-
<b>Total</b>	<b>\$ 36,755</b>	<b>\$ 31,720</b>	<b>\$ -</b>	<b>\$ 57,894</b>	<b>\$ 10,581</b>

### C. Direct Loans Obligated After FY 1991:

Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Direct Loans
(1) Community Disaster Loans	\$ 138,203	\$ 24,353	\$ -	\$ 157,293	\$ 5,263
(2) Individual & Family Grant Loans	1,997	76	-	1,036	1,037
(3) Public Assistance Loans	2,866	110	-	1,488	1,488
(5) Hazard Mitigation Loans	1,621	62	-	842	841
<b>Total</b>	<b>\$ 144,687</b>	<b>\$ 24,601</b>	<b>\$ -</b>	<b>\$ 160,659</b>	<b>\$ 8,629</b>

### D. Subsidy Expenses for Post-1991 Direct Loans:

#### 1. Current Year's Direct Loans

Loans Programs	Interest Differential	Defaults	Fees	Other	Total
(1) Community Disaster Loans	\$ -	\$ -	\$ -	\$ -	\$ -
(2) Individual & Family Grant Loans	-	-	-	-	-
(3) Public Assistance Loans	-	-	-	-	-
(5) Hazard Mitigation Loans	-	3	-	3	6
<b>Total</b>	<b>\$ -</b>	<b>\$ 3</b>	<b>\$ -</b>	<b>\$ 3</b>	<b>\$ 6</b>

**NOTE 6. DISASTER ASSISTANCE DIRECT LOAN PROGRAM (IN THOUSANDS)***continued***2. Total Direct Loan Subsidy Expenses****Loans Programs**

(1) Community Disaster Loans	\$	-
(2) Individual & Family Grant Loans		-
(3) Public Assistance Loans		-
(5) Hazard Mitigation Loans		7
		<u>7</u>
<b>Total</b>	<b>\$</b>	<b><u>7</u></b>

**NOTE 7. ADVANCES AND PREPAYMENTS (IN THOUSANDS)****Directorates and Administrations**

Intragovernmental	\$	20
Other		<u>273,770</u>
Subtotal		<u>273,790</u>

**Disaster Relief Fund**

Intragovernmental		-
Other		<u>48,359</u>
Subtotal		<u>48,359</u>

<b>Total</b>	<b>\$</b>	<b><u>322,149</u></b>
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**NOTE 8. INVENTORY AND RELATED PROPERTY, NET (IN THOUSANDS)**

	Valuation Method	Held for Current Sale	Held for Distribution	Excess, Obsolete and Unserviceable	Total
<b>Directorates and Administrations</b>					
Floodplain Maps and Studies	Average Cost	\$ 2,190	\$ 1,730	\$ -	\$ 3,920
<b>Disaster Relief Fund</b>					
	Average Cost	-	-	-	-
Subtotal		<u>2,190</u>	<u>1,730</u>	<u>-</u>	<u>-</u>
<b>Total</b>		<b><u>\$ 2,190</u></b>	<b><u>\$ 1,730</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,920</u></b>

**NOTE 9. GENERAL PROPERTY PLANT, AND EQUIPMENT (IN THOUSANDS)****Classes of Fixed Assets:**

	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
<b>Directorates and Administrations</b>					
Land & Land Rights			\$ -	\$ -	\$ -
Improvements to Land			-	-	-
Construction in Progress			1,058	-	1,058
Bldgs, Imprvmnts, & Renovations	Straight Line	20/5 Years	1,362	(150)	1,212
Other Structures and Facilities	Straight Line	20/5 Years	840	(30)	810
Equipment	Straight Line	5 Years	6,580	(3,436)	3,144
Leasehold Improvements	Straight Line	5 Years	175	(46)	129
ADP Software	Straight Line	5 Years	3,442	(1,617)	1,825
Other	Straight Line	5 Years	-	-	-
Subtotal			13,457	(5,279)	8,178
<b>Disaster Relief Fund</b>					
Bldgs, Imprvmnts, & Renovations	Straight Line	20/5 Years	132	-	132
Equipment	Straight Line	5 Years	28,106	(7,839)	20,267
Leasehold Improvements	Straight Line	5 Years	1,447	(477)	970
Subtotal			29,685	(8,316)	21,369
<b>Total</b>			<b>\$ 43,142</b>	<b>\$ (13,595)</b>	<b>\$ 29,547</b>

**NOTE 10. DEBT (IN THOUSANDS)****A. Other Debt:**

	Beginning Balance	Net Borrowings	Ending Balance
<b>Directorates and Administrations</b>			
Debt to the Treasury - Principal	\$ 574,922	\$ 28,295	\$ 603,217
Debt to the Treasury - Interest Payable	12,563	1,887	14,450
Subtotal	587,485	30,182	617,667
<b>Disaster Relief Fund</b>			
	-	-	-
<b>Total</b>	<b>\$ 587,485</b>	<b>\$ 30,182</b>	<b>\$ 617,667</b>

**B. Classification of Debt:**

Intragovernmental	\$ 617,667
<b>Total</b>	<b>\$ 617,667</b>

**NOTE 11. CLAIMS AND CLAIMS SETTLEMENT EXPENSES (IN THOUSANDS)****Federal Insurance Administration**

The liability for unpaid losses and loss adjustment expenses represents an estimate of the ultimate net cost of all losses that are unpaid at the balance sheet date and is based on the loss and loss adjustment expense factors inherent in the FIA Insurance Underwriting Operations experience and expectations. Estimation factors used by the Insurance Underwriting Operations reflect current Case basis estimates and give effect to estimates of trends in claim severity and frequency. These estimates are continually reviewed; and adjustments, reflected in current operations, are made as deemed necessary.

**NOTE 11. CLAIMS AND CLAIMS SETTLEMENT EXPENSES (IN THOUSANDS)**  
*continued*

Although the Insurance Underwriting Operations believes the liability for unpaid losses and loss adjustment expenses is reasonable and adequate in the circumstances, it is possible that the Insurance Underwriting Operations' actual incurred losses and loss adjustment expenses (LAE) will not conform to the assumptions inherent in the estimation of the liability. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary from the amount included in the financial statements.

Activity in the liability for unpaid losses and loss adjustment expenses can be summarized as follows:

<b>Balance at October 1, 1998:</b>	
Loss & LAE Reserve	\$ 469,411
<b>Incurred Related To:</b>	
Current Year	824,616
Prior Year	3,295
<b>Total Incurred</b>	<u>827,911</u>
<b>Paid Related To:</b>	
Current Year	324,904
Prior Year	457,887
<b>Total Paid</b>	<u>782,791</u>
<b>Balance at September 30, 1999:</b>	
Loss & LAE Reserve Related to:	
Current Year	499,712
Prior Year	14,819
<b>Total Reserves</b>	<u><u>\$ 514,531</u></u>

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**NOTE 12. DEFERRED REVENUE (IN THOUSANDS)**

<b>Directorates and Administrations</b>	
Prepaid Flood Insurance Premiums	\$ 905,322
Subtotal	<u>905,322</u>
<b>Disaster Relief Fund</b>	<u>-</u>
<b>Total</b>	<u><u>\$ 905,322</u></u>

### NOTE 13. OPERATING LEASES (IN THOUSANDS)

Description of Lease Arrangements: Includes Agency payments for rented/leased office and non-office space and land.

Future Payments Due: Fiscal Year	<<---- Asset Category ---->>		Total
	(1)	(2)	
2000	\$ 19,326	\$ 4,277	\$ 23,603
2001	20,787	4,275	25,062
2002	30,406	4,446	34,852
2003	31,622	4,624	36,246
2004	32,887	4,809	37,696
After 5 Years **	34,202	5,001	39,203
Total	\$ 169,230	\$ 27,432	\$ 196,662

(1) General Services Administration (GSA)-controlled leases

(2) Other than GSA-controlled leases

\* Does not include disaster field offices

\*\* Estimate for 6th Year based on 4% annual increase

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### NOTE 14. FEDERAL EMPLOYEE AND VETERANS' BENEFITS (IN THOUSANDS)

#### Workers' Compensation

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for FEMA employees under FECA are administered by the Department of Labor and are ultimately paid by FEMA.

Future workers' compensation estimates were generated from an application of actuarial procedures developed by the Department of Labor to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to estimate the ultimate payments related to that period.

Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

▼ 5.50% in year 1,

▼ 5.50% in year 2,

▼ 5.55% in year 3,

▼ 5.60% in year 4,

and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors that include cost of living adjustments and medical inflation factors are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year

**NOTE 14. FEDERAL EMPLOYEE AND VETERANS' BENEFITS (IN THOUSANDS)***continued*

constant dollars. The methodology also includes a discounting formula to recognize the timing of actual compensation payments as thirteen payments per year instead of one lump sum per year. The projected number of years benefits payments is 37 years.

The model's resulting projections were analyzed by DOL to ensure that the amounts were reliable. The analysis is based on three tests: (1) a comparison of the current year projections to the prior year projections, (2) a comparison of the prior year projected payments to the current year actual payments, excluding any new case payments that had arisen during the current year, and (3) a comparison of the current year actual payment data to the prior year actual payment data. Based on the outcome of this analysis, ad hoc adjustments were made by DOL to correct any anomalies in the projections.

Based on the actuarial liability estimates provided by the Department of Labor, FEMA's recorded expense and the related increase in the estimated liability for future worker's compensation benefits as of September 30, 1999 were:

	FY 1999 Expense	<<----- Liability ----->>		
		FY 1999 Liability	Beginning of Year Liability	Total Liability
Directorates and Administrations	\$ 2,991	\$ 2,991	\$ 3,322	\$ 6,313
Disaster Relief Fund	2,489	2,489	2,974	5,463
<b>Total</b>	<b>\$ 5,480</b>	<b>\$ 5,480</b>	<b>\$ 6,296</b>	<b>\$ 11,776</b>

**Accrued FECA Liability**

The accrued FECA liability is the difference between the FECA benefit paid by the FECA Special Benefits Fund and FEMA's actual cash payments to the Fund. For example, the Special Benefits Fund will pay benefits on behalf of FEMA through the current year. However, FEMA's actual cash payments to the FECA Special Benefit Fund for the current FY will reimburse the Fund for benefits paid through a prior fiscal year. The difference between these two amounts—benefits paid by the Fund and reimbursements made by FEMA—is the accrued FECA liability.

See Note 19 for prior period adjustment to record the FECA actuarial liability and expense and FECA accrued liability and expense as of September 30, 1998.

**Pensions and Other Retirement Benefits**

To calculate the liability for pensions and other retirement benefit costs, the "service cost" or normal cost is calculated. Service cost is defined as the actuarial present value of benefits attributed by the pension plan's benefit formula to services rendered by employees during the accounting period. The amount of the service cost, less any employee contributions attributable to post-retirement benefits is defined as the "pension expense" for the entity.

Cost factors and imputed cost calculations provided by OPM Retirement and Insurance Service Financial Management Letter F-99-08 dated September 30, 1999 were used to calculate the amount of additional expense to be recorded by FEMA. The employer's contribution is subtracted from the pension expense since FEMA's contribution is expended with each pay period. Since the benefit for pensions is received after retirement, employee and employer contributions are attributed to the period after retirement and are subtracted from the service costs.



**NOTE 14. FEDERAL EMPLOYEE AND VETERANS' BENEFITS (IN THOUSANDS)***continued*

The employee and employer contributions for health care and life insurance are attributed to the current period, and therefore, there is no offset to these service costs to calculate the other retirement benefit expense for the entity. These additional expenses represent the "subsidy" being made by the OPM for employees' retirement benefits.

Based on the information provided by the OPM, FEMA determined that the imputed cost for Pensions and Other Retirement Benefits for the year ended September 30, 1999 were:

	Pensions	Health Insurance	Life Insurance	Total
<b>Directorates and Administrations</b>	\$ 5,663	\$ 4,876	\$ 22	\$ 10,561
<b>Disaster Relief Fund</b>	132	1,494	6	1,632
<b>Total</b>	<u>\$ 5,795</u>	<u>\$ 6,370</u>	<u>\$ 28</u>	<u>\$ 12,193</u>

**NOTE 15. OTHER LIABILITIES (IN THOUSANDS)****A. Other Liabilities Covered by Budgetary Resources:**

	Current	Non-Current	Total
<b>Directorates and Administrations</b>			
Other	\$ 703	\$ -	\$ 703
Advances from Others	53,729	-	53,729
Accrued Annual Leave	1,407	-	1,407
Accrued Payroll and Benefits	9,811	-	9,811
Subtotal	<u>65,650</u>	<u>-</u>	<u>65,650</u>
<b>Disaster Relief Fund</b>			
Other	-	-	-
Accrued Payroll and Benefits	10,784	-	10,784
Subtotal	<u>10,784</u>	<u>-</u>	<u>10,784</u>
<b>Total</b>	<u>\$ 76,434</u>	<u>\$ -</u>	<u>\$ 76,434</u>

**B. Other Liabilities Not Covered by Budgetary Resources:**

	Current	Non-Current	Total
<b>Directorates and Administrations</b>			
Other	\$ 24,063	\$ -	\$ 24,063
Accrued Annual Leave	11,796	-	11,796
Subtotal	<u>35,859</u>	<u>-</u>	<u>35,859</u>
<b>Disaster Relief Fund</b>			
Other	8,395	-	8,395
Accrued Annual Leave	1,650	-	1,650
Subtotal	<u>10,045</u>	<u>-</u>	<u>10,045</u>
<b>Total</b>	<u>\$ 45,904</u>	<u>\$ -</u>	<u>\$ 45,904</u>

**NOTE 16. UNEXPENDED APPROPRIATIONS (IN THOUSANDS)****Directorates and Administrations**

Unobligated	
Available	\$ 258,202
Unavailable	24,326
Unexpended Obligations	245,474
Subtotal	<u>528,002</u>

**Disaster Relief Fund**

Unobligated	
Available	\$ 940,830
Unavailable	94,579
Unexpended Obligations	5,940,016
Subtotal	<u>6,975,425</u>

<b>Total</b>	<u><u>\$ 7,503,427</u></u>
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**NOTE 17. ALLOCATION OF SUPPORT ORGANIZATION COSTS AND PRIOR YEARS' APPROPRIATIONS FY 1994-FY 1996 (FUNDS 3, 9, 10, 17, AND 20) (IN THOUSANDS)**

FEMA allocated Support Organizations and Prior Years' Appropriations FY 1994-FY 1996 (for funds 3, 9, 10, 17, and 20) FY 1999 program costs to the Directorates, Administrations, and the DRF to reflect the costs of operating these organizational components. FEMA allocated costs based on FY 1999 program costs. The program costs of the Support Organizations and Prior Years' Appropriations FY 1994-FY 1996 were allocated as follows:

	1999 Expenses	Allocation %	SO Allocation	Prior Years' Appropriations FY94-FY96	Net Costs
R&R	\$ 68,618	1.52	\$ 1,946	\$ 455	\$ 2,401
MIT	41,058	0.91	1,165	272	1,437
PT&E	306,520	6.80	8,706	2,036	10,742
FIA	154,923	3.44	4,404	1,030	5,434
USFA	31,915	0.70	896	210	1,106
DRF	3,906,228	86.63	110,911	25,932	136,843
<b>Total</b>	<u><u>\$ 4,509,262</u></u>	<u><u>100.00</u></u>	<u><u>\$ 128,028</u></u>	<u><u>\$ 29,935</u></u>	<u><u>\$ 157,963</u></u>

**NOTE 18. ESTIMATED DISASTER COSTS (IN THOUSANDS)**

One of FEMA's primary missions is to respond to major disasters and emergencies under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288, as amended). By law, all requests to the President of the United States for disaster assistance must be made by the Governor of the affected state. The Governor requests assistance for specific disaster programs through the FEMA Regional Director. The FEMA Regional Office and the state conduct preliminary damage assessments to determine if the situation is of such severity that it is beyond the ability of the state and the local governments to respond. If the impact of the disaster warrants federal assistance, the Director of FEMA submits a recommendation to the President for a major disaster or an emergency declaration.

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, liabilities for federal accounting purposes are "probable and measurable future outflows or other sacrifices of resources" as a result of past transactions or events, such as major disasters.

**NOTE 18. ESTIMATED DISASTER COSTS (IN THOUSANDS)**

*continued*

Such transaction or events can arise from: (1) past exchange transactions, (2) Government-related events, (3) Government-acknowledged events, or (4) non-exchange transactions.

Government-acknowledged events, such as declared natural disasters, are of financial consequence to the federal government because it chooses to respond to the event in its role in providing for the public's general welfare, assuming responsibilities for which it has no prior legal obligation.

Costs from many natural disasters may ultimately become the responsibility of the federal government and FEMA. However, these costs do not meet the definition of a liability for financial reporting purposes until the government formally acknowledges financial responsibility for cost from the event and an exchange or non-exchange transaction has occurred. In the case of Government-acknowledged events such formal acceptance of financial responsibility by the federal government occurs when the President declares a disaster. Liabilities resulting from exchange transactions are recognized when the goods or services are provided. For non-exchange events, the liability is recognized only when the unpaid amount is due.

The FEMA Disaster Finance Center tracks all of the disasters that have been declared since FY 1989 under the guidance of the Stafford Act. Cost projections are built based on historical data for the disasters considering all of the following components:

- ▼ Public Assistance
- ▼ Individual Assistance
- ▼ Mission Assignments
- ▼ Hazard Mitigation
- ▼ FEMA Administration

Cost projections are compared against current obligations and expenditures incurred to provide FEMA with budgeting information, and to prepare appropriations requests to Congress.

FEMA has projected the ultimate total costs of the declared disasters to be approximately \$28.6 billion as of September 30, 1999, of which approximately \$26.8 billion has been obligated and \$20.5 billion paid or accrued. Should all projected remaining costs and obligations be funded by the government and paid or accrued by FEMA, an additional \$8.1 billion in expenses would be recorded.

**NOTE 18. ESTIMATED DISASTER COSTS (IN THOUSANDS)***continued*

Information regarding the disaster cost projections and their effect on DRF as of September 30, 1999, is summarized below:

<b>Unfunded Cost:</b>	
Cost Projections	\$ 28,634,334
Obligations	(26,802,343)
Total Unfunded Costs	<u>1,831,991</u>
<b>Unliquidated Obligations:</b>	
Obligations	26,802,343
Expenditures Incurred	(20,524,961)
Total Unliquidated Obligations	<u>6,277,382</u>
<b>Remaining Project Cost:</b>	
Unfunded Cost	1,831,991
Unliquidated Obligations	<u>6,277,382</u>
Remaining Cost	<u>\$ 8,109,373</u>

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**NOTE 19. PRIOR PERIOD ADJUSTMENTS—FECA ESTIMATED ACTUARIAL LIABILITY (IN THOUSANDS)**

In FY 1997, the estimated actuarial liability of \$6.4 million for future workers' compensation benefits adjustment from the Department of Labor was not properly recorded. In FY 1998, the increase in actuarial liability of \$380 thousand was not recorded. The additional FECA liability that FEMA should have recorded for FY 1997 and FY 1998 was:

<b>Estimated Actuarial Liability:</b>	
	Prior Year Liability
Directorates and Administrations	\$ 3,322
Disaster Relief Fund	<u>2,974</u>
Total	<u>\$ 6,296</u>
<b>Accrued Liability:</b>	
	Prior Year Liability
Directorates and Administrations	\$ -
Disaster Relief Fund	<u>3,620</u>
Total	<u>\$ 3,620</u>

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**NOTE 20. SUBSEQUENT EVENT—NATIONAL INSURANCE DEVELOPMENT FUND DEBT FORGIVENESS (IN THOUSANDS)**

PL. 106-74, appropriating for the Departments of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions, corporations, and offices for the FY ended September 30, 2000, and for other purposes, contained a debt forgiveness provision for any indebtedness of the Director of the Federal Emergency Management Agency resulting from the Director borrowing sums before the date of this Act to carry out Title XII of the National Housing Act, and the Director shall not be obligated to repay such sums or any interest thereon, and no further interest shall accrue on such sums.

**NOTE 20.      SUBSEQUENT EVENT—NATIONAL INSURANCE DEVELOPMENT FUND  
DEBT FORGIVENESS (IN THOUSANDS)**

*continued*

The National Insurance Development Fund, the vehicle used for funding the Federal Crime Insurance Program (FCIP), as of September 30, 1999, had borrowed \$3.4 million from Treasury, and \$500 thousand of interest had accrued on that debt. FCIP's debt to Treasury, including the accrued interest, was forgiven subsequent to year-end as part of the FY 2000 appropriation.

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**NOTE 21.      UNDERSTATEMENT IN UNEXPENDED OBLIGATIONS IN THE  
DISASTER RELIEF FUND FOR FY 1998**

In FY 1999, FEMA determined that the Statement of Budgetary Resources was incorrect for the Disaster Relief Fund for FY 1998. The Unexpended Obligations—Unpaid and Total Actual Resources—Collected were understated by \$285 million. The Obligated Balance, Net—Beginning of the Period in the Statement of Budgetary Resources has been adjusted to reflect the \$285 million adjustment. This adjustment in FY 1999 does not impact any of the proprietary statements.